



# CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

July 30, 2004

## **H.R. 4759**

### **An act to implement the United States-Australia Free Trade Agreement**

*As cleared by the Congress on July 15, 2004*

#### **SUMMARY**

H.R. 4759 approves the free trade agreement (FTA) between the government of the United States and the government of Australia that was entered into on May 18, 2004, and provides for tariff reductions and other changes in law related to implementation of the agreement.

The Congressional Budget Office estimates that H.R. 4759 will reduce revenues by \$29 million in 2005, by \$293 million over the 2005-2009 period, and by \$884 million over the 2005-2014 period, net of income and payroll tax offsets. In addition, CBO estimates it will increase direct spending by less than \$500,000 in 2005.

#### **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

The effects of H.R. 4759 on revenues and direct spending over the 2005-2014 period are shown in the following table.

	By Fiscal Year, in Millions of Dollars									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Changes in receipts	-29	-47	-58	-71	-89	-101	-109	-118	-127	-137
Changes in outlays	*	0	0	0	0	0	0	0	0	0

NOTE: \* = increase of less than \$500,000.

## **BASIS OF ESTIMATE**

### **Revenues**

Under the United States-Australia agreement, all tariffs on U.S. imports from Australia will be phased out over time. The tariffs will be phased out for individual products at varying rates according to one of several different timetables ranging from immediate elimination to gradual elimination over 18 years. According to the U.S. International Trade Commission (USITC), the United States collected \$109 million in customs duties in 2003 on about \$6.5 billion of imports from Australia. Those imports consist mostly of chilled and frozen meat, wine, certain motor vehicles and motor vehicle components, and various products made of metal. Based on these data, CBO estimates that phasing out tariff rates as outlined in the U.S.-Australia agreement will reduce revenues by \$29 million in 2005, by \$293 million over the 2005-2009 period, and by \$884 million over the 2005-2014 period, net of income and payroll tax offsets.

This estimate includes the effects of increased imports from Australia resulting from the reduced prices of imported products in the United States, reflecting the lower tariff rates. It is likely that some of the increase in U.S. imports from Australia will displace imports from other countries. In the absence of specific data on the extent of this substitution effect, CBO assumes that an amount equal to one-half of the increase in U.S. imports from Australia will displace imports from other countries.

### **Direct Spending**

H.R. 4759 exempts certain Australian imported goods from the merchandise processing fee collected by the Bureau of Customs and Border Protection (CBP). Under current law, those fees will expire after March 1, 2005. Based on information from the CBP, we estimate that exempting those goods will decrease fee collections by less than \$500,000 in fiscal year 2005.

## **PREVIOUS CBO ESTIMATE**

On July 12, 2004, CBO transmitted a cost estimate for H.R. 4759, as ordered reported by the House Committee on Ways and Means on July 8, 2004. That version of H.R. 4759 was identical to version that was cleared by the Congress, as are CBO's cost estimates for the two versions.

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